

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period
April 16, 2011 Through April 16, 2012**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period
April 16, 2011 Through April 16, 2012

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Rockcastle County Sheriff for the period April 16, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,074,315 for the districts for 2011 taxes, retaining commissions of \$126,536 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,945,048 to the districts for 2011 taxes. Taxes of \$199 are due to the districts from the Sheriff and refunds of \$91 are due to the Sheriff from the taxing districts.

Report Comments:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
2011-02 The Sheriff Should Deposit Revenues Intact Daily
2011-03 The Sheriff Should Distribute Tax Collections As Required By KRS 134.191

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rockcastle County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

2011-02 The Sheriff Should Deposit Revenues Intact Daily

2011-03 The Sheriff Should Distribute Tax Collections As Required By KRS 134.191

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen

Auditor of Public Accounts

September 25, 2012

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|----------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 283,927 | \$ 480,492 | \$ 1,452,396 | \$ 444,091 |
| Tangible Personal Property | 20,795 | 46,426 | 102,453 | 105,639 |
| Fire Protection | 1,596 | | | |
| Increases Through Exonerations | 27 | 45 | 136 | 41 |
| Franchise Taxes | | | | |
| Current Year | 22,473 | 50,121 | 110,744 | |
| Prior Year | 10,440 | 20,936 | 55,631 | |
| Additional Billings - Prior Year | 11 | 16 | 55 | 17 |
| Additional Billings | 190 | 321 | 972 | 297 |
| Mineral Reserves | 181 | 306 | 927 | 283 |
| Bank Franchises | | | | |
| Penalties | 2,751 | 4,677 | 14,006 | 4,468 |
| Adjusted to Sheriff's Receipt | (1) | (13) | 5 | |
| Gross Chargeable to Sheriff | 342,390 | 603,327 | 1,737,325 | 554,836 |
| <u>Credits</u> | | | | |
| Exonerations | 2,444 | 4,126 | 12,471 | 3,813 |
| Discounts | 4,274 | 7,438 | 21,715 | 7,536 |
| Delinquents: | | | | |
| Real Estate | 10,435 | 17,598 | 53,193 | 16,264 |
| Tangible Personal Property | 151 | 337 | 743 | 786 |
| Franchise Taxes | 28 | 60 | 151 | |
| Total Credits | 17,332 | 29,559 | 88,273 | 28,399 |
| Taxes Collected | 325,058 | 573,768 | 1,649,052 | 526,437 |
| Less: Commissions * | 13,815 | 24,385 | 65,962 | 22,374 |
| Taxes Due | 311,243 | 549,383 | 1,583,090 | 504,063 |
| Taxes Paid | 310,940 | 548,943 | 1,581,612 | 503,553 |
| Penalty | | | | 7 |
| Refunds (Current and Prior Year) | 284 | 458 | 1,444 | 444 |
| Due Districts or | | ** | | |
| (Refunds Due Sheriff) | | | | |
| as of Completion of Audit | \$ 19 | \$ (18) | \$ 34 | \$ 73 |

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES
For The Period April 16, 2011 Through April 16, 2012
(Continued)

* Commissions:

4.25% on \$ 1,425,263

4% on \$ 1,649,052

** Special Taxing Districts:

| | | |
|--------------------|----|-------------|
| Library District | \$ | 12 |
| Health District | | (1) |
| Extension District | | 61 |
| Soil District | | <u>(90)</u> |

| | | |
|-----------------------|----|--------------------|
| Due Districts or | | |
| (Refunds Due Sheriff) | \$ | <u><u>(18)</u></u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2012
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Rockcastle County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2011 through April 16, 2012.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$124 as interest income on 2011 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of September 25, 2012, the Sheriff owed \$45 in interest to the school district and \$40 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$21,755 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of September 25, 2012, the Sheriff owed \$244 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Rockcastle County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated September 25, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Rockcastle County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2011-02 and 2011-03.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

September 25, 2012

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2011 Through April 16, 2012

INTERNAL CONTROL - MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The Sheriff's office lacks an adequate segregation of duties over receipts and disbursements. During our review of internal controls, we noted the Sheriff employs two bookkeepers. One bookkeeper is responsible for opening mail, writing checks and has signature authority. The second bookkeeper, who is part time, is responsible for posting receipts to the receipts ledger and disbursement ledger as well as preparing the bank reconciliation. Both bookkeepers collect funds, prepare bank deposits, prepare the daily tax report and can initiate voided transactions in the computerized tax system. The bank allowed checks to be cashed with only one signature even though the Sheriff requires two signatures on each check. The bank also allowed the bookkeeper who does the reconciliation and does not have signature authority for checks to transfer money in and out of the Sheriff's tax and fee accounts.

When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of opening mail, collecting funds, preparing bank deposits, and preparing tax reports. If due to a limited number of staff this is not feasible, the Sheriff should implement the following compensating controls in order to offset this deficiency:

- The Sheriff or a designated employee should recount cash and agree to the deposit ticket. The Sheriff or the designated employee should document this by initialing the deposit ticket.
- The Sheriff should perform surprise cash counts.
- The Sheriff should compare monthly reports to the receipts and disbursements ledgers as well as the bank reconciliation. The Sheriff should document this by initialing the receipts and disbursements ledgers, the monthly reports and the bank reconciliation.
- The Sheriff should purchase checks with two signature lines and establish an agreement with the bank to require all checks have two signatures before being processed, with one signature being the official.
- The Sheriff's office should enter tax bills upon receipt in the computerized tax system.
- The daily tax report should be reconciled to the daily deposit by the Sheriff or by an employee who does not collect taxes or prepare the deposit. This could be documented by initialing the tax report as well as the deposit slip.
- The Sheriff's office should print complete daily tax reports and reconcile these to the monthly tax report, receipt ledger and bank statement. Each step should be documented by initialing the documents.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2011 Through April 16, 2012
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
(Continued)

- If a void is required the reason for the void should be included on the tax bill in the computerized tax system. In addition, all voids should be maintained with supporting documentation for the void and this documentation should be approved by the Sheriff as well as compared to a monthly voided report generated by the computerized tax system.
- The Sheriff should examine checks prepared by the bookkeeper and compare to the monthly tax reports. This could be documented by initialing the monthly reports.
- The Sheriff should receive the bank statements unopened and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.
- The Sheriff should receive a signed receipt from each taxing district documenting delivery of the tax payment.

Sheriff's Response: No response.

STATE LAWS AND REGULATIONS:

2011-02 The Sheriff Should Deposit Revenues Intact Daily

During the daily receipts test procedures, auditors noted the following:

- Three business days (February 10th, 11th, 13th) were combined on one (1) daily report and deposited together.
- Revenues from a tax bill were deposited into the bank November 1, 2011 but the tax bill was not processed or listed on the daily report until February 9, 2012.

The Department of Local Government, given the authority by KRS 68.210, requires all revenues to be deposited intact daily into a federally insured banking institution. We recommend the Sheriff deposit each day's revenues intact and on a separate daily report. We further recommend the Sheriff reconcile the monthly bank statement to the monthly tax reports.

Sheriff's Response: No response.

2011-03 The Sheriff Should Distribute Tax Collections As Required By KRS 134.191

During audit procedures auditors noted that an additional bill collected June 29, 2011 was not remitted to the districts until December 1, 2011. KRS 134.191 requires the Sheriff to provide monthly reports by the tenth day of each month to the county, the department and any other district for which the sheriff collects taxes and payments are due at the time of the report. KRS 134.191 also imposes a penalty of one percent (1%) for each thirty (30) day period or fraction thereof when payment is not made. We recommend the Sheriff pay all taxes due at the time reports are made in accordance with KRS 134.191.

Sheriff's Response: No response.

